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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

9

APRIL 1, 1996 ~ SEPTEMBER 30, 1996

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The Office of the Inspector General (OIG) is an independent organization charged with reporting to the Tennessee Valley Authority (TVA) Board of Directors and Congress on the overall efficiency, effectiveness, and economy of TVA programs and operations. The OIG meets this responsibility by conducting audits, investigations, and other reviews.

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office.

**TVA  
INSPECTOR  
GENERAL**

**Hotline**

Call toll free:  
**1-800-323-3835**  
423-632-3550 (Knoxville)

**Tennessee Valley Authority**  
400 West Summit Hill Drive ET 4C  
Knoxville, Tennessee 37902-1499



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

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George T. Prosser  
Inspector General

October 31, 1996

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This semiannual report describes our office's accomplishments for the six-month period ending September 30, 1996.

During this reporting period, we completed 45 audits which identified almost \$2.6 million in questioned costs and \$28.3 million in funds that could be used more effectively. Our auditors emphasized contract-related issues while also examining topics as diverse as a review of TVA's passenger vehicle fleet and TVA's billing of distributors for reactive power.

Our investigations group completed 105 investigations and has 158 cases under active investigation. During this reporting period, they identified recoveries of more than \$2.3 million, and their work resulted in 1 indictment and 12 convictions. In addition, our investigations of fraudulent workers' compensation claims identified potential long-term savings to TVA of over \$3.1 million, and our review of TVA's health care program identified over \$2 million in potential overpayments.

This year has been a milestone year. It marks ten years of stable electric rates for TVA and ten years since the OIG's inception. To commemorate our anniversary and to celebrate our achievements, OIG employees decided to make a contribution to help less fortunate members of the community pay their electric bills. It is with this spirit of teamwork and initiative that we strive to continue serving as a catalyst for excellence at TVA and as an effective and objective factfinder.

Sincerely,

A handwritten signature in black ink that reads "George T. Prosser". The signature is stylized with a large, flowing "G" and "P".

George T. Prosser  
Inspector General

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## ■ EXECUTIVE SUMMARY

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*This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending September 30, 1996.*

We continued our efforts to support TVA's goals by providing quality service with a reduced workforce. We completed 45 audits which identified almost \$2.6 million in questioned costs and \$28.3 million in funds that could be used more effectively. We also completed 105 investigations which led to more than \$2.3 million in recoveries, 1 indictment, and 12 convictions.

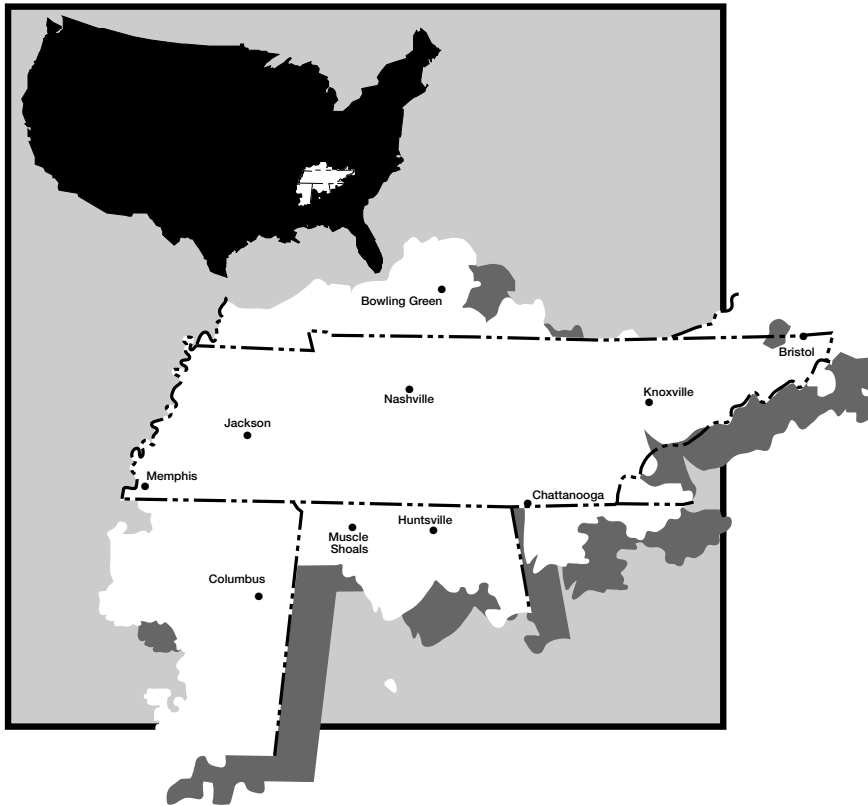
Both Audit and Investigative Operations completed activities focusing on TVA's coal purchases, which total over \$1 billion annually. We audited the financial condition of specific coal contractors and TVA's new procedures to evaluate proposals from coal vendors. An investigation led to TVA receiving \$1.8 million from a coal supplier that was selling TVA coal which did not meet TVA's specifications.

Audit activities included participation on a cross-functional procurement team to evaluate offers from providers of information technology. As part of the team, we conducted preaward audits of the six top evaluated offers, which directly led to a savings of \$611,000 in connection with three contract awards totaling about \$44 million. An audit of a contractor's cost proposals to provide fire protection

systems under a planned \$28 million contract identified a potential savings of \$2.9 million.

Our investigations of workers' compensation fraud led to convictions of four former employees and the termination of benefits for others—resulting in a potential savings to TVA of more than \$3.1 million. As the result of several investigations of fraudulent or ineligible temporary living expense reimbursements, TVA realized a savings of more than \$628,600 from 3 contractor companies; convicted contractor employees have repaid or been ordered to repay TVA \$130,650; and 12 others are facing prosecution for fraud totaling \$491,800. A program we initiated during the last reporting period to identify and prevent fraud, waste, and abuse in TVA's health care program has, to date, resulted in over \$100,000 in recovered overpayments and the identification of over \$2 million in potential overpayments.

Among the 19 special projects we completed was a review of a new credit card purchasing program TVA initiated as the result of problems we identified with the previous program. A limited-scope review of TVA's Accounts Payable assessed risks and identified ways TVA could reduce the potential for loss.



*TVA's 15,990 employees serve an 80,000-square-mile region spanning seven states.*

TVA is a federal corporation responsible for developing and conserving the natural resources of the Tennessee River Valley.

TVA's 15,990 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded by congressional appropriations.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate.

Craven Crowell is the Chairman, and Johnny H. Hayes and William H. Kennoy are Directors.

TVA's goals are Customer Driven, Employee Sensitive, Environmentally Responsible, and Growth Oriented. TVA's vision is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs."

## Organization

The OIG's Investigative Operations unit consists of an investigative services and hotline group and two investigative departments. One department focuses on contract issues, workers' compensation cases, and employee integrity matters; and the other department focuses on environmental issues, nuclear issues, and benefits and entitlement programs.

The OIG's Audit Operations unit consists of four departments, two of which are devoted to contract-related topics and high-profile customer requested services. Two other departments focus on performance, financial, and ADP-related issues.

## Office Authority

The TVA Board of Directors administratively established the OIG during October 1985. During its early years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers granted by a provision in a TVA appropriations bill. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 new statutory offices whose Inspector General was appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

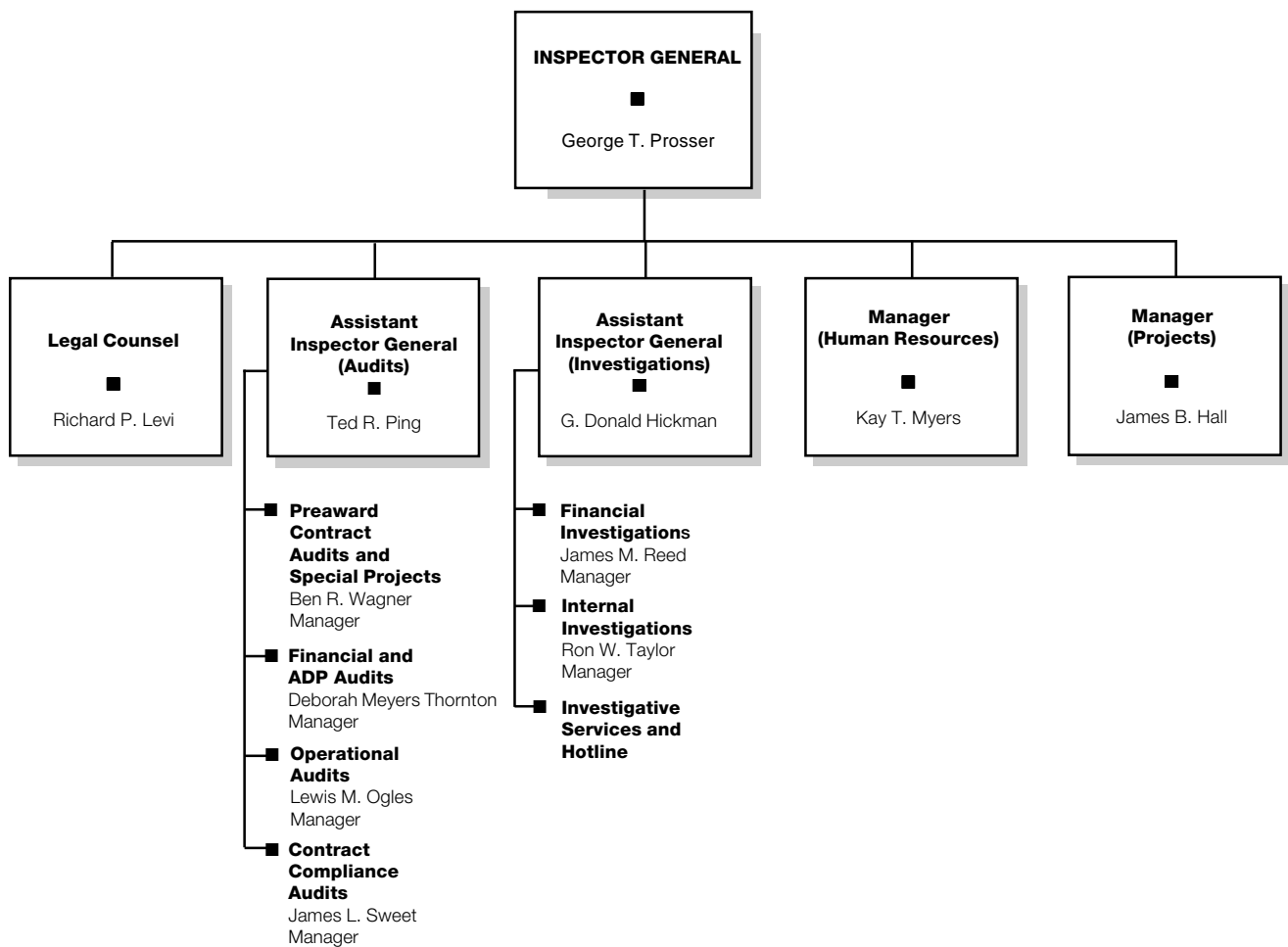
George T. Prosser became TVA's third Inspector General on April 1, 1994.

## Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has investigative satellite offices in Chattanooga, Tennessee, and Huntsville, Alabama.

The OIG's fiscal year 1996 budget is about \$7.3 million, and during this reporting period, the OIG had 95 employees.

### OFFICE OF THE INSPECTOR GENERAL





During this reporting period, we continued placing emphasis on TVA's coal purchases, which total over \$1 billion annually. Our efforts could result in substantial savings to TVA, and during this period TVA recovered \$1.8 million from a coal vendor as a direct result of an OIG investigation.

- In connection with our coal investigations, two special agents and their manager were deputized. This is the first time our special agents have had full law enforcement authority, which includes the authority to carry firearms, make arrests, and serve as affiants on federal search warrants. Deputization will better enable OIG agents to conduct investigations in this area without undue risk to themselves and others.
- We currently have nine pending coal investigations. One investigation led to TVA receiving \$1.8 million as part of a civil settlement agreement with the coal supplier who was selling TVA coal which did not meet TVA's specifications. TVA's contracts with the supplier required the coal to meet specific quality standards based on a laboratory analysis of a full representative and proportional sample of the coal in each barge.

Our investigation revealed the company was turning off the mechanical sampler while loading high sulfur coal on the barges. Accordingly, the coal quality analysis sent to TVA was not valid.

- An audit determined that from 1986 to present, TVA has had a continuing business relationship with a minority-owned coal vendor. Since 1992, TVA has attempted to help the vendor become a coal producer. We assessed the vendor's financial condition and found the vendor had serious financial difficulties and had incurred costs and damages as a result of noncompliance with its contracts of \$1,901,256. In addition, TVA concessions to the vendor resulted in \$706,489 in unrecoverable costs.

We recommended TVA (1) recover \$161,057 for overbillings and delinquent royalty payments, (2) assess the feasibility of collecting \$970,234 in damages, (3) help develop a plan for the vendor to repay its loans and related interest, and (4) evaluate the merits of continuing TVA's current business relationship with the vendor. Management agreed with our recommendations and is currently taking appropriate action.

- At the request of TVA management, we audited the financial condition of a coal supplier who had requested a \$2.50 per ton price increase on a 1994 contract because of financial difficulties. We were also requested to assess the impact of the requested price increase on the supplier's financial condition.

We found the supplier was in poor financial condition as a result of production problems, and the price increase would not significantly improve its financial condition. We concluded TVA would expend an additional \$3.75 million per year through 1999 if the price increase were granted. TVA management subsequently decided to disallow the price increase based on the audit and other technical considerations.

- In a special review, the OIG determined that TVA uses sealed bidding, competitive negotiations, and other competitive procedures as a basis for awarding coal contracts. TVA recently changed the process for evaluating bids to incorporate the use of a computer model developed by the Electric Power Research Institute. This process, called Coal Quality Impact Model, evaluates coal characteristics in greater detail than previous evaluations.

We reviewed the new process and found TVA made cost-effective coal purchases on a fair and objective basis and that procedures for soliciting and analyzing coal bids were followed. However, we found areas where improvements could be made in bid evaluations procedures, communications with vendors, and quality control of data analysis.

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 45 audit reports that identified almost \$2.6 million in questioned costs and \$28.3 million in funds which could be put to better use (see Appendix 1).

### Summary of Representative Audits

Our audits included performance reviews of TVA programs, processes, and systems, as well as compliance audits and preaward audits of TVA contractors.

#### **Participation in Cross-Functional Team Saves \$611,000**

TVA formed a cross-functional procurement team to evaluate offers from providers of information technology services.

We participated in this team effort by:

- Assisting in the commercial evaluation of ten responsive offers;
- Performing preaward audits on the six top evaluated offers; and
- Assisting in the commercial evaluation of the six best and final offers.

TVA recently decided to award three contracts totaling about \$44 million for information technology services over a two-year period. The three contracts will include savings of \$611,000 as a direct result of preaward audit suggestions that were included in the best and final offers.

#### **Review of TVA's Passenger Vehicle Fleet**

TVA provides passenger vehicles for TVA employees and contractors to use on official travel. As of September 30, 1995, TVA operated a fleet of 1,294 passenger vehicles with a book value of \$12,035,563. We reviewed the operating cost of the passenger vehicle fleet and found:

- Owning and operating the fleet cost at least \$5.7 million or 20.8 cents per mile, substantially greater than TVA's reported cost of about 15 cents per mile. Depreciation and cost of capital were the primary contributors to the understatement of TVA's reported costs.
- Maintaining the current fleet appeared more cost-effective than the three alternatives of leasing vehicles from the private sector, reimbursing employees for mileage driven, and leasing vehicles from the General Services Administration.

- TVA's recent decision to replace its passenger fleet annually and reevaluate its replacement decision annually had merit.

TVA management agreed to take appropriate action to correct the cost reporting errors.

### **Reactive Power Billing of Distributors**

TVA provides its consumers with two types of power—real power and reactive power. Real power is supplied to meet kilowatt power demands; whereas, reactive power is supplied to meet inductive loads and loss requirements. The relationship between real and reactive power of a given load is defined as power factor. The higher the power factor, the higher the ratio between the real and reactive loads and the more efficient the power supply.

TVA suspended its reactive power billing provision—a provision intended to provide incentives for TVA's distributors to improve their power factors—in July 1993 because of billing problems, and the revenue generated by the reactive charges was considered insignificant. We assessed the impact on TVA of suspending reactive power billings and found that since TVA suspended reactive power billing:

- TVA has not monitored distributors' reactive power demands to ensure the distributors have continued to optimize power factors.
- Distributor power factors appear to have declined.
- TVA has not collected about \$4.3 million in costs associated with improving the efficiency of the system or generating reactive power.

We recommended, in part, that TVA assess the merits of reinstituting reactive power billing of distributors. Management agreed and said TVA would include the pricing of reactive power as part of a pricing study that is targeted for implementation in October 1997.

### **Potential Contract Savings of \$2.9 Million Identified**

We audited a contractor's cost proposals to provide fire protection systems under a planned \$28 million three-year contract with TVA's Fossil and Hydro Power (F&HP). We also reviewed the contractor's actual costs for completed projects to determine if the profits quoted in the firm-price proposals were representative of actual profits obtained. In summary, we found:

- Eight project proposals totaling \$8.35 million were overstated \$251,075 due to (1) inflated materials and device costs, (2) the inclusion of

insurance costs for coverages being provided by TVA, (3) overstated payroll tax costs, and (4) the inclusion of bond costs previously billed to TVA. We estimated TVA's costs would be inflated an additional \$529,000 if these overstatements are included in future project proposals.

- The contractor's actual profits on the firm-price projects have significantly exceeded the profits disclosed in its project proposals. We estimated TVA could save about \$2.1 million by negotiating cost reimbursement payment terms rather than paying fixed prices for the remaining contract projects.

TVA management is currently evaluating the results of this audit.

#### **Improvements in Internal Controls Identified for an Industrial Development Association**

An industrial development association was established to promote industrial growth throughout the Tennessee Valley. Membership in the association is open to any Regional Industrial Development Association (RIDA) whose membership is comprised of TVA's electric power distributors. Each year RIDAs contribute about \$270,000 to the association. Additionally, through a contract with TVA, the association receives \$275,000 each year (subject to TVA's budget).

We found the association had a weak internal control structure because of inadequate management oversight. The lack of oversight was demonstrated by the association's (1) failure to file nine required IRS Forms 1099-MISC, Miscellaneous Income; (2) failure to adequately safeguard its only asset— cash; (3) outdated bylaws; (4) lack of written policies and procedures in the areas of daily operations, contracting, and travel; and (5) violations of contract terms with TVA.

We made several recommendations to the association's Board of Directors that would strengthen the association's internal control structure.

TVA management and the association's Board of Directors agreed with our recommendations, and the Board is currently in the process of implementing the recommendations.

#### **TVA Contractor Was Overpaid \$350,000**

TVA entered into a contract during August 1992 to obtain engineering services in a partnership arrangement for its F&HP organization. The agreement was a task order contract with various pricing provisions based on actual costs plus markups. As of March 31, 1995, TVA had paid the contractor \$3.8 million for the work of employees of an affiliated

company; however, the contract did not address the use of the affiliated company.

At the request of F&HP, we calculated TVA's overpayment for work performed by the affiliated company's employees on the contract. We found TVA paid the contractor \$349,389 more than the affiliated company's reported actual costs plus fees for the work performed.

TVA management is currently attempting to recover the amount overpaid.

In the last six months, we substantiated 34 of the 108 allegations we investigated—almost 31 percent. Our cases also led to more than \$2.3 million in monetary recoveries, 1 indictment, and 12 convictions. Representative investigations are highlighted below.

### Summary of Representative Investigations

#### **WORKERS' COMPENSATION CLAIMS**

During this reporting period, the Office of Workers' Compensation Programs (OWCP) terminated benefits for eight individuals as a result of our investigations, resulting in potential long-term savings to TVA of more than \$3.1 million.

#### **Criminal Cases**

Four former employees were convicted in federal court of making false statements to OWCP by failing to report their work activities while receiving disability benefits. OWCP has terminated workers' compensation benefits for two of the former employees, which resulted in potential long-term savings to TVA of more than \$1.2 million. These cases are described below.

- A former TVA asbestos worker was sentenced to 16 months' imprisonment, 3 years' probation, and

150 hours of community service. The former employee failed to report he earned more than \$52,000 for building barns. In addition, he was required to make restitution to TVA of more than \$100,000. In connection with our investigation, the former employee's brother was sentenced to four months' home detention, 60 months' probation, and 100 hours of community service after he pled guilty to making false statements to the grand jury concerning his brother's employment activities.

- A former TVA carpenter was sentenced to four months' home detention, three years' probation, and fined \$5,000. The former employee failed to report that he did carpentry work.
- Two former TVA employees pled guilty but have not yet been sentenced. One failed to report that he owned and operated an electrical business and earned more than \$116,000. The other employee failed to report that he earned more than \$19,000 working with a logging company.

#### **Administrative Cases**

In addition, OWCP terminated the benefits of four former employees as a result of our investigation of claims that they failed to report their employment

activities. OWCP's action resulted in potential long-term savings to TVA of more than \$1.9 million.

## **FALSE CLAIMS**

We continue to investigate false claims in several areas, including temporary living expenses (TLE) and travel vouchers.

### **Temporary Living Expenses**

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contractors. We are concentrating our efforts on TVA former contract employees who worked at two TVA nuclear plants—the Watts Bar Nuclear Plant (WBN) and the Browns Ferry Nuclear Plant (BFN). During this reporting period, these investigations led to realized and potential savings for TVA of more than \$1.25 million. Our results from this reporting period are described below.

**WBN** — Our investigation of former WBN contractor employees has resulted in TVA Nuclear agreeing to recover more than \$236,500 from five contractors. Based on our recommendations during this and prior reporting periods, TVA Nuclear during this reporting period withheld more than \$600,000 from two of those contractors. In addition, another com-

pany has reimbursed TVA more than \$28,600 as a result of our investigation of its employees.

Further, two former WBN contract employees pled guilty to federal fraud and theft charges and another has agreed to plead guilty. One of the former employees was ordered to repay TVA \$9,400; the other repaid \$13,050. Seven other former contract employees will be prosecuted for fraud totaling over \$271,800.

**BFN** — Two former BFN contractor employees pled guilty to federal fraud charges while another former employee entered a pretrial diversion program. These three individuals were ordered to repay TVA more than \$108,200. Five former contract employees will be prosecuted for fraud totaling more than \$220,000. In addition, we are working with the U.S. Attorney's offices to establish a strategy to recover civil fraud damages.

### **Travel Vouchers**

Two TVA employees, who are brothers, were terminated after our investigation revealed they submitted fraudulent travel vouchers. More specifically, the brothers rode together to work and each claimed gas and parking expenses from TVA.



**Other False Claims**

A TVA subcontractor pled guilty in federal court to submitting a false statement to TVA. (The company and its president also pled guilty to numerous environmental and immigration violations unrelated to TVA.) The subcontractor was working for a company with which TVA had contracted to build and install burners and related parts for several fossil plants. The parts were required to meet certain testing standards. When the parts did not meet these standards, the subcontractor falsified test results to show they met the standards. Our investigation revealed the company falsified documents when casting parts for two TVA fossil plants. During our investigation, the subcontractor settled with the U.S. Department of Justice on all matters. As a part of the settlement, the company agreed to replace all suspect parts at no cost to TVA. Further, the company was fined \$150,000, of which TVA received \$25,000.

**EMBEZZLEMENT**

A former TVA materials clerk pled guilty in federal court after our investigation revealed the clerk embezzled more than \$38,900. Initially, the clerk—who was in charge of collecting the mail and preparing field purchase orders—stole checks that vendors returned to TVA as overpay-

ments. Subsequently, she devised a scheme where she took legitimate vendor invoices and altered key information, including inserting her own address (i.e., a post office box) on them. She then attached the falsified vendor invoices to field purchase orders, which she prepared and submitted for payment. Subsequently, TVA sent checks to the clerk's post office box. The clerk has not been sentenced.

**SEXUAL MISCONDUCT**

Representative substantiated sexual misconduct investigations include the following.

A TVA machinist was terminated after our investigation revealed he sexually harassed a female coworker, including sexually assaulting her at a TVA fossil plant.

A TVA computer graphics technician was terminated after our investigation revealed he engaged in egregious misconduct constituting sexual harassment. Among other things, the technician showed sexually explicit pictures to male and female coworkers, made numerous lewd and sexually suggestive comments to coworkers, and inappropriately touched females.

### **MISUSE OF TVA EQUIPMENT**

Our investigation of misuse of TVA property included vehicle and telephone misuse.

A computer specialist was suspended for ten days after our investigation revealed he allowed a private citizen, who he knew or should have known was intoxicated, to drive his assigned TVA vehicle because the specialist was too intoxicated to drive it himself. The police impounded the vehicle and arrested the private citizen for driving while intoxicated and possession of a controlled substance.

A former TVA intern student made numerous unauthorized long-distance telephone calls and charged the calls to TVA as third-party billings. From June 1992 to October 1995, she made unauthorized calls totaling \$8,324.

### **ETHICS VIOLATIONS**

Two representative substantiated ethics investigations are described below.

A TVA Administrative Services manager and a subordinate accepted meals and gratuities from a TVA contractor in violation of ethics regulations. Further, the two employees submitted travel vouchers which claimed expenses for the meals paid for by the contractor. They each received a written warning. In

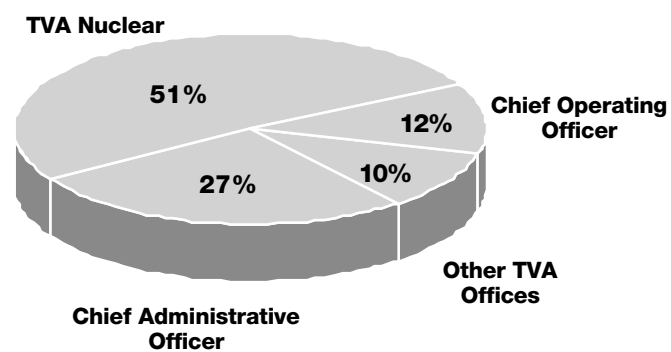
addition, the manager was required to forfeit his fiscal year 1996 base compensation award and his performance incentive plan award.

Our investigation revealed a TVA manager violated ethics regulations when he (1) held a personal party and allowed a contractor to pay part of the caterer's bill; (2) used a contract employee to help with his personal party; (3) tried to use his TVA position for private benefit by using TVA equipment and TVA or contractor employees to clean a church carpet after his daughter's wedding; and (4) had his secretary and other contract personnel type his college homework assignments on TVA time without prior management approval.

### **NUCLEAR-RELATED ISSUES**

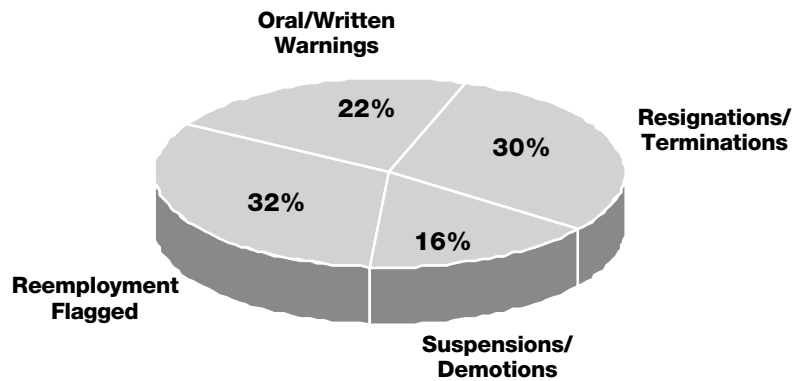
During this reporting period, we completed ten investigations involving nuclear-related issues, including seven cases involving complaints filed with the U.S. Department of Labor under Section 211 of the Energy Reorganization Act. In the majority of our nuclear-related investigations, we found insufficient evidence to show employee misconduct. We investigated the Section 211 complaints at TVA management's request in order to provide factual and independent information to help ensure employees feel free to raise concerns.

Our investigations involve programs and activities affecting many TVA organizations. These organizations are shown below for the cases we closed this reporting period.



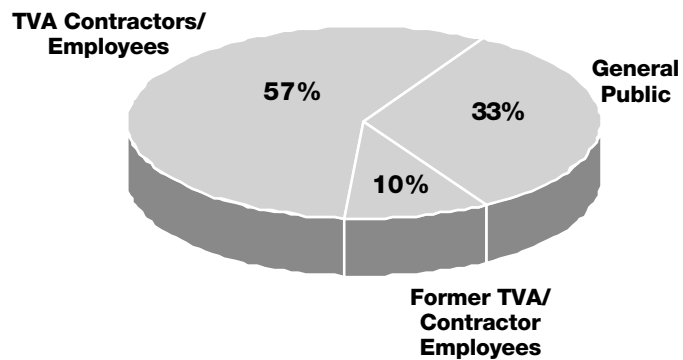
### Administrative and Disciplinary Actions Since October 1, 1991\*

Total = 318



\*Prosecutive referrals are shown at Appendix 3.

### Calls Made to the OIG Hotline During this Reporting Period



In addition to conducting audits and investigations, our office continues to perform special projects for the Board of Directors and TVA executive management. During this reporting period, we conducted 19 such projects. Discussed below are highlights of three significant completed projects.

### **Purchasing Card Program**

As a result of a previous review, TVA initiated major changes to its credit card program, such as restricting credit card use to primarily small dollar over-the-counter procurements of materials, equipment, services, and supplies. TVA currently spends about \$35 million annually under the new Purchasing Card Program.

We conducted a follow-up review to compare the features of the new program to results from our prior review. We found the new Purchasing Card Program has improved controls over TVA credit card use by (1) placing program administration under TVA Purchasing, (2) restricting the types of allowed purchases, (3) reducing the number of cards issued, (4) requiring that cardholders be TVA employees, and (5) providing program guidelines and training for TVA organizations. However, additional improvements can be made, including increased management reviews of charges,

payment reconciliation, controls over purchases, and improved documentation. Such improvements would reduce TVA's vulnerability to misuse of these cards.

### **TVA Revenue Generating Projects**

Beginning in fiscal year 1994, TVA emphasized the development of external business opportunities as a means of generating additional revenue. TVA Services was charged with developing business initiatives that would cover Services' operating cost as well as generate additional revenue. During fiscal year 1995, Services reported 251 projects which generated about \$65 million in revenues.

We reviewed the accounting and billing process use for one of TVA's revenue-generation projects and found the TVA employees working on the project did not follow TVA's customary practice with respect to invoice preparation. However, there was no evidence these employees knowingly violated TVA procedures or intended to engage in misconduct. We also performed a limited-scope review of the accounting and billing processes used on other revenue-generation projects and found different processes were being used to account for expenses and bill and collect revenues. We suggested TVA could make improvements by (1) revising how revenue and

contributions margins are reported to top management, (2) recording revenue collections in a revenue account rather than as credits to operational accounts, and (3) maintaining accurate books and records to support TVA's actual cost of business.

#### **Accounts Payable — Limited-Scope Risk Assessment**

We conducted a limited-scope review of TVA's Accounts Payable to assess risks and identify opportunities to offset the potential for loss. We identified several factors which may contribute to the likelihood of vendor overpayments and found the disbursing function could be strengthened to reduce the chance of check fraud. To help offset the likelihood of losses in these areas, we (1) plan to use accounts payable recovery specialists to search for and recover vendor overpayments and (2) suggest TVA consider using a service offered by banks known as "positive pay" which can significantly reduce the risk of paying fraudulent checks.

#### **Health Benefits Program**

We have continued our efforts to identify and prevent fraud, waste, and abuse in TVA's health care program.

To date, we have recovered over \$100,000 in overpayments due to claim administration errors, including duplicate payments among the plans and coordination of benefits with non-TVA plans. Our review also identified over \$2 million in potential overpayments for medical coding abuses, such as unbundling and upcoding.

Our employee awareness campaign, conducted with TVA management assistance, continues to produce numerous calls to the OIG Hotline regarding health benefit fraud and abuse issues. Preliminary investigations of the complaints have resulted in several investigative cases and audit issues. For example, one complaint revealed two of TVA's third-party administrators were not coordinating employees out-of-pocket maximums, which resulted in overpayments by employees. In this complaint, the employee received a refund, and the issue was referred to Audit Operations for potential review.

TENNESSEE VALLEY AUTHORITY  
OFFICE OF THE INSPECTOR GENERAL SEMIANNUAL  
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## ■ APPENDICES

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**OIG AUDIT REPORTS ISSUED DURING  
THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1996**

The following table summarizes final audit reports issued by the OIG from April 1 through September 30, 1996.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
4/18/96	96-010C	Team Associates, Inc. - Contract TV-94218V			
4/25/96	96-001F	University of Tennessee at Chattanooga - Contract TV-85688V			
5/9/96	96-011P-02	Review of Beechgrove Processing Company - Contract 87P-17-T3	(\$9,729)		
5/13/96	96-027F	Review of Dynamic Metals, Inc. - Financial Information			
5/13/96	96-029P-01	Review of Contract TV-90020V With Western Kentucky Economic Development Corporation			
5/13/96	96-029P-02	Review of Contract TV-92302V With Western Kentucky Economic Development Corporation			
5/31/96	96-043S	Marathon Consulting Group, Inc. - Preaward Audit for Nuclear Power			
6/5/96	96-028P-01	Review of Contract TV-94505V With Middle Tennessee Recyclers Marketing Cooperative			
6/5/96	96-028P-02	Review of Contract TV-85745V With Visions Five Group			
6/6/96	96-035P	Review of Onyx's Financial Condition	1,779,780		\$1,408,000
7/8/96	96-040S	F. E. Moran, Inc. - Contract 94P8D-790011 - Preaward Audit of Proposed Costs for Fire Protection Systems	251,075		2,629,000

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
7/10/96	96-039F	Review of the Financial Condition of White Oak Mining & Construction Co., Inc.			\$14,492,940
7/12/96	95-074C	Bechtel Corporation - Contract 92NLA-869168 - True Ups of Costs Billed for Nonmanual Employee Payroll Additives	\$83,445		
7/18/96	96-014P-01	Review of TVA's Vehicle Fleet Operating Costs			
7/18/96	96-014P-02	Comparison of TVA's Passenger Vehicle Fleet Operating Costs to Other Alternatives			
7/18/96	96-014P-03	TVA's Passenger Fleet Replacement Strategy			
7/24/96	96-049S	National Systems & Research Company - Preaward Audit - RFP YE-164790			252,000
7/24/96	96-051S	CDI Information Services - Preaward Audit - RFP YE-164790			730,300
7/29/96	96-052S*	Distributed Information Systems, Inc. - Preaward Audit for Information Services			661,115
7/29/96	96-053S*	Millennium Computer Technology, Inc. - Preaward Audit			829,150
7/31/96	96-048S	BTG, Inc. - Preaward Audit for Information Services			831,600
8/5/96	96-055S	Roberts & Schaefer Company - Preaward Audit - Widows Creek Barge Unloader			265,950
8/14/96	96-016P	TVA's Reactive Power Billing of Distributors			1,911,000

## Appendix 1

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
8/19/96	96-023C	Bechtel Power Corporation - Contract TV-83425V	\$4,399		
8/23/96	96-050S*	Science Applications International Corporation			\$2,720,000
8/27/96	96-060S	Edaw, Inc. - Preaward Audit for Transmission Power Supply	33,462		162,700
8/27/96	96-063S	TVA Nuclear Proposal to Battelle Pacific Northwest National Laboratories - Preaward Audit			
9/5/96	96-062C	Raytheon Engineers and Constructors, Inc. - Contract TV-82466V - Review of Fees Paid			
9/10/96	95-039C-03	Cataract, Inc. - Contract TV-92003V			
9/10/96	96-034S	Global Power Company - Preaward Audit for Fossil & Hydro Power/GUBMK	2,307		
9/11/96	95-039C-01	Cataract Inc. - Contract 94N3D-101870			
9/12/96	96-067S	Law Engineering and Environmental Services, Inc. - Contract TV-92657V - Review of Indirect Cost Rates	27,861		143,339
9/17/96	95-039C-02	Cataract, Inc. - Contract TV-91111V	10,148		
9/18/96	96-064S	Dames & Moore - Preaward Audit for the Resource Group - RFP RG-O1-96			146,700
9/18/96	96-066S	Law Engineering and Environmental Service, Inc. - Preaward Audit for the Resource Group - RFP RG-O1-96			443,000

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
9/18/96	96-071S	Radian International LLC - Preaward Audit for the Resource Group - FFP RG-01-96			
9/27/96	95-059F	Tennessee Valley Industrial Development Association - Financial Review			
9/27/96	96-036S	A C and S, Inc. - Preaward Audit for Fossil & Hydro Power/ GUBMK	\$2,820		
9/27/96	96-068S	Science Applications International Corporation - Preaward Audit for the Resource Group - RFP RG-01-96			\$304,000
9/27/96	96-070S	International Technology Corporation - Preaward Audit for the Resource Group - RFP RG-01-96			330,500
9/27/96	96-074S	Fish and Wildlife Associates, Inc. - Preaward Audit for the Resource Group			
9/27/96	96-075S	American Aquatics - Preaward Audit for the Resource Group			14,220
9/30/96	94-044C	Gilbert/Commonwealth, Inc. - Contract TV-89742V	20,437	\$20,437	
9/30/96	96-005C	Gilbert/Commonwealth, Inc. - Contract TV-89742V - Credit Calculation for United Energy Services Corporation	349,389	349,389	
9/30/96	96-065S	Jacobs Engineering Group, Inc. - Preaward Audit for the Resource Group - RFP RG-01-96			
<b>Total</b>	<b>45</b>		<b>\$2,555,394</b>	<b>\$369,826</b>	<b>\$28,275,514</b>

\*Contract not awarded.

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE  
SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1996**

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

**TABLE I  
TOTAL QUESTIONED AND UNSUPPORTED COSTS**

<b>AUDIT REPORTS</b>	<b>NUMBER OF REPORTS</b>	<b>QUESTIONED COSTS</b>	<b>UNSUPPORTED COSTS</b>
A. For which no management decision has been made by the commencement of the period	3	\$2,425,334	\$2,318,334
B. Which were issued during the reporting period	12	2,555,394	369,826
Subtotal (A+B)	15	\$4,980,728	\$2,688,160
C. For which a management decision was made during the reporting period	11*	4,696,665	2,688,160
1. Dollar value of disallowed costs	9	2,755,993	2,527,268
2. Dollar value of costs not disallowed	3	1,940,672	160,892
D. For which no management decision has been made by the end of the reporting period	4	284,063	0
E. For which no management decision was made within six months of issuance	0	0	0

\* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

TABLE II  
FUNDS TO BE PUT TO BETTER USE

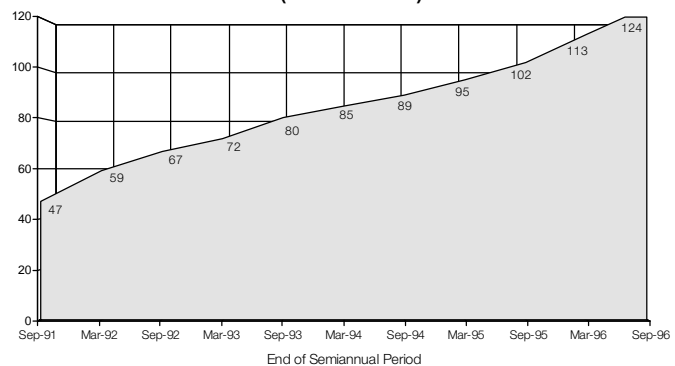
AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	6	\$10,585,675
B. Which were issued during the reporting period	18	28,275,514
Subtotal (A+B)	24	\$38,861,189
C. For which a management decision was made during the reporting period	17*	33,138,680
1. Dollar value of disallowed costs	14	31,576,430
2. Dollar value of costs not disallowed	5	1,562,250
D. For which no management decision has been made by the end of the reporting period	8	5,722,509
E. For which no management decision was made within six months of issuance	0	0

\* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

### INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	17	1 Indictments 12 Convictions 7 Declinations
Subjects referred to other agencies for investigative or administrative action	0	OWCP declared \$103,234 in overpayments and saved TVA more than \$3.1 million in estimated long-term workers' compensation costs.
<b>TOTAL</b>	<b>17</b>	

**Convictions Since October 1, 1990  
(Cumulative)**





Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

Craven Crowell  
Chairman, Board of Directors

November 4, 1996

TO THE UNITED STATES CONGRESS:

We are providing TVA's Report on Final Actions on Inspector General audit recommendations, in keeping with Section 5(b) of the Inspectors General Act of 1978, as amended.

TVA is in its tenth consecutive year of having no increase in our electric power rates. Savings and efficiencies identified by the Inspector General have contributed significantly to this accomplishment. We welcome the continued support of the Inspector General as we strive to meet our goals and position TVA to compete in the global marketplace of the 21st century.

Sincerely,

A handwritten signature in black ink, reading 'Craven Crowell'.

Craven Crowell

Enclosure



**TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1996**

The following Tables I and II summarize final action taken by management on OIG audit reports. The tables reflect amounts which were agreed to by management and track the disposition of these amounts through final action. Table III contains the explanations by audit report for final actions not taken within one year of the management decision dates.

**TABLE I  
DISALLOWED COSTS**

<b>AUDIT REPORTS</b>	<b>NUMBER OF REPORTS</b>	<b>AMOUNTS AGREED BY MANAGEMENT</b>
A. For which final action by management had not been taken by 3/31/96	8	\$4,135,141
B. On which management decisions were made from 4/1/96 through 9/30/96	11	2,755,993
Subtotal (A + B)	19	\$6,891,134
C. For which final action was taken by management from 4/1/96 through 9/30/96		
1. Amounts that were recovered by management	8 *	1,166,559
2. Amounts that were not recovered by management	2 *	18,987
D. For which management has taken no final action by 9/30/96	12 *	5,705,588

\* The number of reports will differ from the arithmetic total when a final audit action includes both amounts recovered and amounts not recovered for a single audit report.

TABLE II  
RECOMMENDATIONS THAT FUNDS BE PUT  
TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT
A. For which final action by management had not been taken by 3/31/96	3	\$1,684,238
B. On which management decisions were made from 4/1/96 through 9/30/96	17	31,576,430
Subtotal (A + B)	20	\$33,260,668
C. For which final action was taken by management from 4/1/96 through 9/30/96		
1. Dollar value of recommendations implemented by management	13	22,949,765
2. Dollar value of recommendations not implemented by management	5	6,368,990
D. For which management has taken no final action by 9/30/96	7 *	3,941,913

\* The number of reports will differ from the arithmetic total when a final audit action includes both recommendations implemented and recommendations not implemented for a single audit report.

TABLE III  
EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN

AUDIT REPORT NUMBER	DATE ISSUED	DISALLOWED COSTS	FUNDS PUT TO BETTER USE	EXPLANATION FINAL ACTION NOT TAKEN
Controls Over TVA Telephone Services 93-024F	3/31/95	N/A	N/A	TVA has drafted a telephone system security document and is taking other actions to improve telephone security. TVA expects to issue the security document in FY 1997.
LAN and WAN Management and Operation 93-029F	12/20/93	N/A	N/A	TVA has a draft network security policy currently out for review and comments. The final plan is expected to be approved and issued by December 1996.
Fossil Plant Operator Staffing 94-001P	9/26/94	N/A	N/A	TVA has incorporated in the FY 1997 budget a project that will address all recommendations contained in this report. Final action is expected by September 1997.
Health Care Fraud Controls 94-020P	9/27/94	\$1,000,000	N/A	Based on the results of Deloitte & Touche's review, TVA questioned \$2 million in health care costs. Resolution is still pending.
Review of TVA's Novell Networks Access Security 95-009F	7/28/95	N/A	N/A	TVA has a draft network security policy currently out for review and comments. The final plan is expected to be approved and issued by December 1996.
Electric Power Research Institute - Preaward Audit for Tailored Collaboration Master Agreement 95-030S	5/30/95	\$578,000	\$1,078,313	Although TVA agreed with the recommendations in this report, attempts to negotiate a new contract with EPRI have not been completed. Work has continued under the existing contract as efforts to reach a new contract continue.

N/A - Not Applicable

NOTE: This table excludes two reports in judicial appeal according to the reporting guidelines of the Inspector General Act.

# **OIG SPECIAL PROJECTS COMPLETED DURING THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1996**

During this reporting period, the OIG completed the 19 special projects listed below.

MONTH ISSUED	REPORT NUMBER	REPORT TITLE
April	96-933S	TVA Purchasing Card Program
April	96-913F	Litigation Support - Search for Assets Relating to TVA's Potential Claim for Damages
April	96-948F	Transfer of Organizational Responsibility for TV-93068V
April	96-902S	Coal Acquisition Process
April	96-922S	Review of Contractor Qualifications
May	96-949S	The Economic Impact of TVA Coal Acquisition Policy
May	96-937F	Procurement and Contracting Internet Team
May	96-953F	Tennessee Elk River Development Agency
May	96-954S	Allegation of Excessive Write-offs - Power Service Shops
June	96-934S	Assist OIG Investigation of Tool Theft
June	96-914S	Review of TVA's Owner Controlled Insurance Program
June	96-950S	Workplace Environment of WBN Chemistry Department
June	96-923S	Accounts Payable Risk Assessment
June	96-957S	Revenue-Generating Projects
July	96-958S	End of Fiscal Year Spending Patterns
September	96-955S	Calculation of Annual Payroll Costs Based Upon 2,087 Workhours Instead of 2,080 Workhours
September	95-935C	Contractor Electronic Invoice Submission
September	96-969P	Managed Health Care RFP Evaluation
September	96-939S	IT Support Contract

## OIG REPORTING REQUIREMENTS

Information required by the Inspector General Act of 1978, as amended, is included in this semiannual report as indicated below.

Section 4(a)(2) — Review of Legislation and Regulations	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-18
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-18
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 3
Sections 5(a)(5) — Summary of Instances Where Information and 6(b)(2) Was Refused	**
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Audits	Pages 7-10
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	***
Section 5(a)(11) — Significant Revised Management Decisions	****
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	*****

\* There were no significant legislation or regulations reviewed during this reporting period.

\*\* There were no instances where information or assistance was unreasonably refused or not provided.

\*\*\* There were no unresolved audit reports in this category during this reporting period.

\*\*\*\* There were no significant revised management decisions.

\*\*\*\*\* There were no significant management decisions with which the Inspector General disagreed.

## H I G H L I G H T S

	FOR SEMIANNUAL REPORTING PERIODS				
	SEPT 30, 1996	MAR 31, 1996	SEPT 30, 1995	MAR 31, 1995	SEPT 30, 1994
<b>ANNUAL BUDGET</b> (In Millions of Dollars)	7.3	7.3	8.5	8.5	8.7
<b>CURRENT STAFFING</b>	94	95	95	98	118
<b>AUDITS</b>					
AUDITS IN PROGRESS					
Carried Forward	42	29	37	31	29
Started	50	41	43	48	43
Canceled	(6)	(4)	(10)	(6)	(7)
Completed	(45)	(24)	(43)	(36)	(34)
In Progress at End of Reporting Period	41	42	27	37	31
AUDIT RESULTS (Thousands)					
Questioned Costs	\$2,555	\$2,600	\$4,319	\$7,042	\$10,948
Disallowed by TVA	2,756	408	2,320	2,711	9,900
Recovered by TVA	1,167	460 **	493	3,933	8,054
Funds to Be Put to Better Use	\$28,276	\$10,909	\$9,004	\$4,355	\$3,791
Agreed to by TVA	31,576	3,899	8,112	1,610	4,004
Realized by TVA	22,950	3,859	8,143	632	1,477
<b>INVESTIGATIONS</b>					
INVESTIGATION CASELOAD					
Carried Forward	153 *	138 *	158	174 *	149
Opened	110	133	128	120	155
Closed	105	117	(147)	(136)	(150)
In Progress at End of Reporting Period	158	154	139	158	154
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	24	32	30	18	38
Actions Taken (# of Subjects)	17	35	21	23	23
<b>PROSECUTIVE ACTIVITIES</b> (# of Subjects)					
Referrals	17	13	17	7	19
Indictments	1	7	5	2	4
Criminal Complaints	0	0	0	0	3
Convictions	12	12	7	6	4
<b>SPECIAL PROJECTS</b>					
Completed	19	7			
Cost Savings Identified/ Realized (Thousands)	\$3,000	\$5,300			

\* Adjusted from previous semiannual reports.

\*\* Excludes excess recovery of \$211.

